

November 7, 2005



Financial Management

Report on Controls Over Funds Used by DoD for the National Drug Control Program (D-2006-012)

Department of Defense
Office of Inspector General

Constitution of
the United States

A Regular Statement of Account of the Receipts and Expenditures of all public Money shall be published from time to time.

Article I, Section 9

Additional Copies

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at <http://www.dodig.mil/audit/reports> or contact the Secondary Reports Distribution Unit, Audit Followup and Technical Support at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact Audit Followup and Technical Support at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

ODIG-AUD (ATTN: AFTS Audit Suggestions)
Department of Defense Inspector General
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

DEPARTMENT OF DEFENSE

hotline

To report fraud, waste, mismanagement, and abuse of authority.

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900
Phone: 800.424.9098 e-mail: hotline@dodig.osd.mil www.dodig.mil/hotline

Acronyms

DASD (CN)
DoD OIG
NGB
ONDCP

Deputy Assistant Secretary of Defense (Counternarcotics)
Department of Defense Office of Inspector General
National Guard Bureau
Office of National Drug Control Policy



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 7, 2005

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DEPUTY ASSISTANT SECRETARY OF DEFENSE
(COUNTERNARCOTICS)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE SECURITY COOPERATION AGENCY
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Controls Over Funds Used by DoD for the National Drug Control
Program (Report No. D-2006-012)

We are providing this report for information and use. We considered management comments on a draft of this report when preparing the final report.

The Assistant Secretary of Defense (Counternarcotics) comments conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, additional comments are not required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400, extension 211 or Ms. Amy J. Frontz at (614) 751-1400, extension 213. See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing

A handwritten signature in black ink, reading "Paul J. Granetto", is positioned above the printed name.

Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing Service

Department of Defense Office of Inspector General

Report No. D-2006-012

November 7, 2005

Project No. (D2005-D000FJ-0120.000)

Controls Over Funds Used by DoD for the National Drug Control Program

Executive Summary

Who Should Read This Report and Why? DoD personnel working in the counterdrug program should read this report. It discusses internal controls used to account for the counterdrug funding that is provided annually to DoD organizations.

Background. This audit was performed to meet the requirements of Public Law 105-277, "Office of National Drug Control Policy Reauthorization Act of 1998," October 21, 1998. The DoD Office of Inspector General is responsible for authenticating the accounting of funds allocated to the DoD counterdrug organizations by the Deputy Assistant Secretary of Defense (Counternarcotics). For FY 2004 DoD counterdrug organizations were allocated \$953.3 million by the Deputy Assistant Secretary of Defense (Counternarcotics) and obligated \$916.5 million.

Results. DoD Components involved in the counterdrug program used the funds they were provided for counterdrug purposes. Additionally, documentation was available for the majority of the transactions we tested. However, the amounts reported by the Military Departments and the National Guard to the Deputy Assistant Secretary of Defense (Counternarcotics) did not always match the accounting records, and procedures were not in place to reconcile the differences. The Deputy Assistant Secretary of Defense (Counternarcotics) needed to require DoD counterdrug organizations to establish processes to properly record amounts used for counterdrug activities, to include maintaining information on the details of the transactions related to amounts reported. We identified a material management control weakness related to accounting for counterdrug funds reported to the Deputy Assistant Secretary of Defense (Counternarcotics). The recommendations in this report, if implemented, will improve the accuracy of reporting of the DoD counterdrug funds.

Management Comments and Audit Response. The Principal Director for Counternarcotics concurred with the audit finding and recommendations. He issued new guidance that requires DoD Components to establish an account record that will support amounts reported as obligated at the end of the fiscal year and reconcile the amount reported to detail transaction records. We commend the quick action. The new policy guidance will improve the audit trail for the reported obligation amount. Although not required to comment, the Department of the Army and the National Guard Bureau provided comments that supported the report conclusions. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Table of Contents

Executive Summary	i
Background	1
Objectives	3
Management Control Program Review	3
Finding	
Reconciliation and Support of DoD Counterdrug Organizations Funding	4
Appendixes	
A. Scope and Methodology	10
Prior Coverage	12
B. DoD Organizations Included in the National Drug Control Program	13
C. Report Distribution	14
Management Comments	
Assistant Secretary of Defense (Special Operations and Low-Intensity Conflict)	17
Department of the Army	19
National Guard Bureau	21

Background

The DoD receives funds annually to do its part to combat the use of drugs nationally and internationally. The Deputy Assistant Secretary of Defense (Counternarcotics) (DASD [CN]) is responsible for the DoD counterdrug activities and for reporting on the activities to the Office of National Drug Control Policy (ONDCP), a Component of the Executive Office of the President.

The DoD counterdrug program is funded through the DoD Central Transfer Account. The amount funded through this account for FY 2004 was \$953.3 million. DASD (CN) allocates the funds by issuing reprogramming actions to the DoD counterdrug organizations. The funds are allocated by appropriation and by project code. Organizations receiving DoD counterdrug funding for FY 2004 include the Military Departments, the National Guard, 10 Defense agencies, and 7 other DoD organizations. (See Appendix B for a list of the DoD organizations involved with the National Drug Control Program.) Each of these organizations reports back to DASD (CN), by project code, the amount obligated for the year from the amount allocated.

This audit was performed to meet requirements of Public Law 105-277, "Office of National Drug Control Policy Reauthorization Act of 1998," October 21, 1998, which states in section 705:

(d) Accounting of Funds Expended.—The Director shall-

(A) require the National Drug Control Program agencies to submit to the Director not later than February 1 of each year a detailed accounting of all funds expended by the agencies for National Drug Control Program organizations during the previous fiscal year, and require such accounting to be authenticated by the Inspector General for each agency prior to submission to the Director; and

(B) submit to Congress not later than April 1 of each year the information submitted to the Director under subparagraph (A).

Office of National Drug Control Policy. The office is responsible for:

- developing a national drug control policy,
- coordinating and overseeing implementation of the national drug control policy,
- assessing and certifying the adequacy of national drug control programs and the budget of those programs, and
- evaluating the effectiveness of the national drug control programs.

Office of National Drug Control Policy Circular, “Drug Control Accounting,” April 18, 2003. The Circular provides the policies and procedures used by National Drug Control Program agencies in conducting a detailed accounting and authentication of all funds expended on National Drug Control Program organizations. The Circular requires a detailed accounting submission from the Chief Financial Officer, or other accountable senior level executive, of each agency to the Director of ONDCP. The detailed report must include (a) a table highlighting prior year drug control obligations data, and (b) a narrative section making assertions regarding the prior years obligation data.

The assertions included an acknowledgement that the financial systems supporting the drug methodology yield data that fairly present the aggregate obligations from which the obligation estimates are derived.

For the last 3 fiscal years, the DoD Office of Inspector General (DoD OIG) has performed an attestation review engagement. In performing the attestation review, the DoD OIG has performed limited substantive testing and relied mainly on analytical procedures. We performed this audit to conduct more detailed substantive testing on the transactions that account for the obligations and expenditures of the DoD counterdrug program for FY 2004.

Deputy Assistant Secretary of Defense (Counternarcotics). The office is responsible for:

- developing and implementing the Department’s counternarcotics policy;
- coordinating and monitoring the Department’s counternarcotics plans and programs;
- directing the planning, programming, and budget formulation for the program; and
- working with the Joint Staff, Unified Commanders, and Chiefs of the Reserve and National Guard on all issues and actions relating to the execution of the Department’s counternarcotics program and their missions.

The program consists of functions to reduce demand and functions to reduce supply. Active duty and civilian drug testing, expanded testing of the Reserves and National Guard, establishing consistent policies regarding drug use, and community outreach programs for Department dependents all serve to reduce the demand. Detection and monitoring programs that integrate military, United States law enforcement agencies, and foreign capabilities against illegal air and maritime drug shipments to the United States are aimed at reducing the supply of illegal drugs.

Objectives

The objective of the audit was to determine whether DoD expended funds on the National Drug Control Program in compliance with Office of National Drug Control Policy Circular “Drug Control Accounting,” April 18, 2003. We also reviewed the management control program as it related to the audit objective and compliance with laws and regulations related to the program. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objectives.

Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of DoD counterdrug organizations’ management controls over the reporting of funds used to support counterdrug efforts. We reviewed management’s self-evaluation applicable to those controls. We reviewed the FY 2004 Annual Statement of Assurance for several of the DoD organizations receiving counterdrug funding to determine whether any of the reported material management control weaknesses were related to accounting for counterdrug funding.

Adequacy of Management Controls. We did identify a material management control weakness, as defined by DoD Instruction 5010.40, related to DoD counterdrug organizations adequately supporting the obligation amounts reported to the DASD (CN) at fiscal year end.

Adequacy of Management’s Self-Evaluation. The Office of DASD (CN) reports the results of its evaluation of internal controls to the Office of Secretary of Defense (Special Operations and Low Intensity Conflict). This office did not consider the DoD counterdrug program an assessable unit, and DASD (CN) reported no internal control weaknesses for FY 2004.

Reconciliation and Support of DoD Counterdrug Organizations Funding

The available documentation showed that DoD organizations used the funds they were provided for counterdrug purposes with supporting documentation available for the majority of the transactions we tested. However, the amounts reported by the Military Departments and the National Guard to the Deputy Assistant Secretary of Defense (Counternarcotics) did not always match the accounting records, and procedures were not in place to reconcile the differences. Documentation was incomplete because the Military Departments and the National Guard counterdrug Components did not have procedures in place to reconcile and maintain an audit trail for the amounts reported. As a result, DoD could not provide adequate evidence that FY 2004 year-end reporting of the amount of counterdrug funding used was accurate, and unless controls are improved DoD will not be able to demonstrate that the FY 2005 amounts are accurate.

Detailed Transaction Support

We were able to obtain supporting documentation for 228 of the 322 sample transactions, valued at \$103 million, that we tested. The source documentation supported \$101.4 million and identified \$0.2 million as unsupported. The source documentation was not available for 94 transactions valued at \$1.5 million. All source documentation should be available in a timely manner to support future financial statement audits. The funds relating to all 228 transactions for which we obtained source documentation were used for counterdrug purposes.

The Special Operations Command and the Defense Security Cooperation Agency were able to support the amounts they reported at year-end with detail transaction data.

However, the detailed transactions obtained from the three Military Departments and the National Guard did not support the amount reported to DASD (CN) as obligated. Additionally, those four DoD organizations did not have procedures in place to reconcile the differences between the amount reported and the amount supported by detail transactions.

Although the Army and Navy did not have specific reconciliation procedures in place, they were able to provide explanations for the majority of the differences in the amount reported and the amount supported by detail transactions. However, the Air Force and National Guard Bureau (NGB) could not provide detailed obligation transactions that supported the amount reported to DASD (CN) for sample project codes. Table 1 compares the reported amounts to detailed transaction amounts.

**Table 1. Differences in Supporting Detail and Obligations
Reported to DASD (CN) for Items Sampled
(\$ in millions)**

<u>DoD Counterdrug Activity</u>	<u>No. of Project Codes</u>	<u>Value of Obligations Reported to DASD (CN)</u>	<u>Value of Detail Transactions Provided</u>	<u>Difference (Absolute)</u>
Air Force	7	\$146.5	\$148.7	\$2.2
Navy	7	93.8	95.8	2.0
National Guard*	2	20.8	19.2	1.6
Army	5	90.8	89.6	1.2
Defense Security Cooperation Agency	2	18.2	18.2	0.0
Special Operations Command	1	12.4	12.4	0.0
Total		\$382.5		\$7.0

*This table reflects a sample of \$382.5 million of the \$953.3 million of counterdrug funding. National Guard State Plan funding was included in a separate sample, which is discussed below.

Air Force. The Air Force was not able to support the obligations reported to DASD (CN) at the end of FY 2004 with detailed transaction records. The Air Force counterdrug office provided the detailed transaction support by querying the data from the Commanders Resource Integration System. The Air Force counterdrug office did not have any procedures in place to reconcile the \$2.2 million difference in the amount of detail transactions and the amount reported to DASD (CN) for FY 2004 obligations.

National Guard. The NGB headquarters was not able to reconcile differences in the supporting detail and the amount reported to DASD (CN) for FY 2004 obligations for project codes 7415 National Guard Schools and 7403 National Guard State Plans. See Table 2 and Table 3 for more information on amounts reported for these two project codes.

Project Code 7415 National Guard Schools. The NGB reported to DASD (CN) a total amount allocated of \$19.2 million and a total amount obligated of \$18.2 million. NGB headquarters provided us a list of the States that received counterdrug funding under project code 7415. The amount of obligations identified by NGB headquarters was \$18.7 million. The NGB headquarters could not explain the \$.5 million difference between the \$18.7 million and the \$18.2 million reported to DASD (CN). Table 2 compares the reported amounts to detailed transactions for selected States.

Table 2. Project Code 7415 National Guard Schools

<u>State/Activity</u>	Dollar Amount Provided to DoD OIG by NGB HQ	Dollar Amount of Detailed Transactions	Difference (Absolute)
Florida	\$5,630,512	\$3,595,860	\$2,034,652
Iowa	2,099,988	1,911,553	188,435
Mississippi	6,286,025	6,168,957	117,068
Pennsylvania	4,381,657	4,450,482	68,824
Wisconsin	346,197	370,543	24,346
Total	\$18,744,379	\$16,497,395	\$2,433,325

We requested that each of the five States provide the detail obligation transactions to support FY 2004 obligations. The total dollar amount of FY 2004 obligations supported by detail transaction lists was \$16.5 million (See Table 2). The NGB provided no explanation and had no procedures in place to reconcile the difference in the amount of detail transactions provided by the States. As a result, the detail transaction lists of \$16.5 million could not be reconciled to the \$18.2 million reported to DASD (CN) or the \$18.7 million calculated by NGB in February 2005.

Project Code 7403 National Guard State Plans. NGB headquarters could not provide detailed support for the amount reported as obligated for project code 7403, and there were no procedures in place to reconcile the amount reported as obligated to the detailed accounting transactions.

This project code was selected for review separately from the random sample of project codes because of its significant dollar amount and the number of organizations reporting under this project code. NGB reported funding to DASD (CN) for this project code in four segments. The four segments were Army National Guard State Plans, Air National Guard State Plans, Demand Reduction Army National Guard, and Demand Reduction Air National Guard. Table 3 shows the amounts allocated and obligated for each segment.

Table 3. Project Code 7403 National Guard State Plan Funding Reported to DASD (CN) (\$ in millions)		
Reporting Segment from <u>DASD (CN) Report</u>	Value of Funds Allocated <u>by DASD (CN)</u>	Value of Obligations <u>Reported to DASD (CN)</u>
Army National Guard State Plans	\$128.5	\$141.5
Air National Guard State Plans	52.4	44.2
Demand Reduction Army National Guard	13.2	0.0
Demand Reduction Air National Guard	<u>5.1</u>	<u>4.5</u>
Total	\$199.2	\$190.2

The NGB headquarters could not provide us the data, broken out by State, that were used to report the four segments at year-end to DASD (CN). However, NGB headquarters provided an Access database program that was used to track the amount allocated to each State or territory throughout the year. The database maintained obligation data based on budgetary reports, not accounting records.

NGB headquarters reported the initial allocation of funding based on the President's budget during March 2003 (referred to as FY 2004 Initial). At the beginning of FY 2004, NGB headquarters allocated discretionary amounts of funding and specific line item funding to the States and territories (referred to as the Second Target FY 2004). The Second Target funding totaled \$181.8 million for the individual State plans and \$17.4 million for NGB headquarters. NGB indicated that the Second Target FY 2004 was the best available support for the amount reported at year-end to DASD (CN). The final amount obligated for each State for FY 2004 was not determined until February 2005. The final amounts determined in February 2005 indicated \$186.5 million for the individual State plans, \$3.9 million for DASD (CN) support for Colombia, and \$8.8 million for NGB headquarters. These amounts changed from the Second Target amounts reported earlier, however, the total amount remained \$199.2 million. These final amounts for the individual State plans still did not reconcile to the detail obligation transactions provided.

We randomly selected nine States and the Demand Reduction Army National Guard segment to review. We contacted each selected State and requested that they identify the transactions that supported the amount obligated for FY 2004. We requested that NGB headquarters provide the methodology it used to determine the amount it reported as allocated for Demand Reduction Army National Guard, and explain why no amount was reported as obligated.

The NGB organizations could not provide adequate documentation to support the obligated reported amount for the nine States and the Demand Reduction Army National Guard segment. For two States, obligation transactions were significantly different from the amount provided by NGB headquarters. Two other States could not provide the data in an electronic format that could be used for further sample selection and analysis.

In addition, NGB headquarters could not provide support for the amount reported as Demand Reduction Army National Guard. The Army and Air National Guard [Demand Reduction] segments reported to DASD (CN) were estimates of the amount of funding from the State plans that was used for demand reduction activities. The accounting systems do not differentiate between demand reduction and other State plan funding. The only time demand reduction and other State plan funding were identified separately was for the year-end report to DASD (CN). NGB headquarters could not provide the methodology used to estimate the \$13.2 million it reported as allocated for Demand Reduction Army and the \$5.1 million it reported as allocated for Demand Reduction Air National Guard. In addition, NGB was not consistent in reporting obligations for the demand reduction amounts. The Air National Guard reported an estimate of the amount obligated separately to DASD (CN). The Army National Guard included the demand reduction obligations with the other state plan obligations reported to DASD (CN).

We were unable to test the individual transactions supporting the obligations for the nine States and Demand Reduction Army National Guard segment because NGB was not able to provide adequate detail transactions to support the amount reported as obligated for FY 2004.

Source Documentation

We reviewed 322 sample transactions valued at \$103 million. For each of the transactions selected, we requested source documentation to determine if the transaction was accurately valued in the accounting system and was expended for a valid counterdrug purpose. Supporting documentation includes hard copy documents such as invoices, Military interdepartmental purchase requests, contracts, and travel vouchers. Each supporting document was evaluated on an individual basis. The main considerations were whether the supporting documentation related to the sample project code and whether the expenditure's purpose appeared to be a reasonable counterdrug expenditure. For the 322 sample transactions, we were able to obtain supporting documentation for 228 transactions. The source documentation supported \$101.4 million and identified \$0.2 million as unsupported. Source documentation was not available for 94 transactions valued at \$1.5 million. All source documentation should be available in a timely manner to support future financial statement audits. We determined that the funds relating to all 228 transactions for which we obtained source documentation were used for counterdrug purposes.

Recommendations, Management Comments, and Audit Response

We recommend that the Deputy Assistant Secretary of Defense (Counternarcotics):

1. Require the DoD counterdrug organizations reporting obligation data to establish procedures to maintain an audit trail for the amounts reported as obligated at the end of the fiscal year, and establish a process to reconcile the amount reported at the end of the fiscal year with detailed transaction records.

Assistant Secretary of Defense (Counternarcotics) Comments. The Principal Director for Counternarcotics concurred. He stated that he issued new guidance that requires DoD Components to establish an account record that will support amounts reported as obligated at the end of the fiscal year and reconcile the amount reported to detail transaction records.

Department of the Army Comments. Although not required to comment, the Chief, Force Protection Division concurred. The Chief commented that the processes and records exist to support counterdrug obligations. However, detailed transaction listings are the responsibility of the specific installation entering the obligation into the financial system and may not be available at the Army Counterdrug Office.

National Guard Bureau Comments. Although not required to comment the National Guard Bureau concurred. The National Guard Bureau will retain the supporting documentation that supports the detailed obligation transactions reported at the end of the fiscal year.

2. Report the material weakness identified in the Finding of this report in the annual statement of assurance until it is corrected.

Assistant Secretary of Defense (Counternarcotics) Comments. The Principal Director for Counternarcotics acknowledged the material management control weakness identified during the audit and the new obligation guidance, if implemented correctly, should correct the material weakness.

Appendix A. Scope and Methodology

The audit was performed to meet the requirements of Public Law 105-277, “Office of National Drug Control Policy Reauthorization Act of 1998,” October 21, 1998, which states that the Director must require the National Drug Control Agencies to submit a detailed accounting of all funds expended by the agencies for National Drug Control Program organizations during the previous fiscal year to the director no later than February 1 of each year. The Act also requires such accounting to be authenticated by the Inspector General of each agency.

We audited the FY 2004 funding provided to DoD counterdrug organizations reported by DASD (CN) at the end of the year. The DASD (CN) reported obligations by functional area to the ONDCP, as required by ONDCP Accounting Circular, April 18, 2003. However, the data was reported by the DoD counterdrug organizations to DASD (CN) by project code. DASD (CN) took the amounts reported by project code and allocated them, based on an estimated percentage, to the functional areas. Because the data were reported to DASD (CN) by project codes at the end of the year, we determined that the project code would be the sampling unit.

The universe consisted of all funds for FY 2004 allocated by DASD (CN) for obligations in support of the DoD National Drug Control Program. For FY 2004 DASD (CN) allocated \$953.3 million for obligations. Of this total, \$882.8 million was for unclassified programs and \$70.5 million was for classified programs. We focused our audit on the unclassified funds allocated by DASD (CN) for obligation for the FY 2004 annual reporting period. There was \$882.8 million allocated for obligations for FY 2004 in 86 unclassified project codes. Of this \$882.8 million, \$847.2 was reported as obligated during FY 2004.

The scope of our audit was limited in that we did not review \$70.5 million of the \$953.3 million allocated for obligations by DASD (CN) related to projects that were classified. We performed this audit from February 2005 through August 2005 based on generally accepted government auditing standards.

The universe was separated into two populations. The first population consisted of all unclassified project codes, except for project code 7403, with \$683.6 million allocated or available and \$657.0 million obligated. The second population consisted of project code 7403 National Guard State Plans with \$199.2 million allocated or available and \$190.3 million obligated. We randomly selected 14 unique project codes from the population of project codes and randomly selected 10 organizations reporting under project code 7403 to conduct testing of detailed transactions.

We determined whether the obligations and expenditures related to the DoD National Drug Control Program for FY 2004 were accurately valued and used for valid counterdrug missions. To accomplish this, we selected project codes from the end of FY 2004 reported to the DASD (CN) office from the DoD counterdrug organizations. We used statistical sampling techniques and performed substantive

tests on the transactions that make up the dollar amounts for selected project codes. We also judgmentally selected transactions for review that were valued at less than, or equal to, zero. For each transaction we selected, we wanted to determine if the obligation was accurately reflected in the accounting system and was for valid expenses related to the DoD counter drug program.

We sent an initial data request to each activity that received counterdrug funding within each project code. We requested the detailed transactions that supported the amount obligated for FY 2004 counterdrug program funding. We reconciled the dollar amount reported as obligated in the end of FY 2004 report to DASD (CN) to the dollar amount of all detailed transactions provided by each activity. We conducted the second stage sample selection of detailed transactions to ensure the documentation supported the amount reported for the transaction and to ensure the funds were used for counterdrug programs.

Sample Design. We separated the data into non-project code 7403 and project code 7403 populations.

The non-project code 7403 population was a two stage design. The first stage was a probability proportional to size design by dollar amount, selected with replacement. It consisted of 20 project codes, of which 14 were unique. These project codes were selected from a universe of 85 project codes valued at \$683.6 million. At the second stage, a simple random sample of 20 transactions for each project code was selected without replacement. The dollar amount by document identification number for each transaction was totaled, and those document identification numbers with a total dollar amount greater than zero were used as the population from which we selected the sample transactions. Randomization was done using Statistical Analysis Software version 9.1.

The project code 7403 population was a stratified design. The first stratum was a census stratum consisting of the 20 states or components with the largest dollar amounts. The second stratum consisted of 10 states or components selected by simple random selection. The population consisted of the 54 organizations and demand reduction amounts reported under project code 7403. For this project code, nine States and the demand reduction amount for the Army National Guard were selected from a universe of \$199.2 million.

Sample Results. We did not project the results of our statistical sample because of the differences between the amount reported and the amount supported by detailed transactions for the DoD counterdrug organizations. In addition, NGB could not reconcile or support the amounts reported for project codes 7403 and 7415. For these two project codes, we did not perform any testing of the detail transactions to the source documentation.

For the 322 sample transactions valued at \$103 million that we did test, we were able to obtain supporting documentation for 228 transactions. The source documentation supported \$101.4 million and identified \$0.2 million as unsupported. The source documentation was not available for 94 transactions valued at \$1.5 million. Additionally, we determined that the funds relating to all 228 transactions for which we obtained source documentation were used for counterdrug purposes. The results of the items we reviewed indicated that there

were adequate controls to ensure that funds were used for counterdrug purposes. However, all source documentation should be available to support future financial statement audits.

Use of Computer-Processed Data. We used computer-processed data from the Standard Army Finance Information System, the Standard Accounting and Reporting System, and the Commander's Resource Integration System. We did not test these systems' general and application controls. We determined that the document numbers and obligation amounts on the source documents selected for review generally agreed with the data obtained from these systems. We did not find material errors that would preclude the use of computer processed data to meet the audit objectives or change the conclusions in this report.

Use of Technical Assistance. The DoD OIG, Quantitative Methods Division provided assistance in developing the statistical sample plan.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the financial management high-risk area.

Prior Coverage

During the last 5 years, the DoD OIG has issued 5 reports discussing the DoD counterdrug program. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

DoD OIG Report No. D-2005-030, "Independent Auditors Report on the DoD FY 2004 Detailed Accounting Report of the Funds Expended on National Drug Control Program Activities," January 26, 2005

DoD OIG Attestation Review of the DoD FY 2003 Drug Control Obligations Report, January 9, 2004

DoD OIG Attestation Review of the DoD FY 2002 Drug Control Obligations Report, January 3, 2003

DoD OIG Report No. D-2001-117, "Management Controls Over the FY 2000 National Drug Control Program Funds Managed Through the DoD Central Transfer Account," May 10, 2001

DoD OIG Report No. D-2000-145, "Management Controls Over National Drug Control Program Funds Managed Through the DoD Central Transfer Account," June 9, 2000

Appendix B. DoD Organizations Included in the National Drug Control Program

Military Departments

- Army
- Navy
- Air Force

National Guard

- National Guard (Air and Army Guard)

Defense Agencies

- Defense Contract Audit Agency
- Defense Intelligence Agency
- Defense Security Service
- Defense Security Cooperation Agency
- Defense Information Systems Agency
- Defense Logistics Agency
- DoD Education Activity
- Defense Threat Reduction Agency
- National Imagery and Mapping Agency
- National Security Agency

Other DoD Organizations

- Office of the Secretary of Defense
- Joint Chiefs of Staff
- Special Operations Command
- Assistant Secretary of Defense Command, Control, Communications, and Intelligence
- Washington Headquarters Service
- DoD Office of Inspector General
- Uniformed Services University of the Health Sciences

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Policy)

Assistant Secretary of Defense (Special Operations /Low Intensity Conflict)

Deputy Assistant Secretary of Defense (Counternarcotics)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General

Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)

Auditor General, Department of the Air Force

Combatant Command

Commander, U.S. Special Operations Command

Other Defense Organizations

Defense Security Cooperation Agency

Chief, National Guard Bureau

Director, Army National Guard

Director, Air National Guard

Non-Defense Federal Organizations

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Assistant Secretary of Defense (Special Operations and Low-Intensity Conflict) Comments



SPECIAL OPERATIONS/
LOW-INTENSITY CONFLICT

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-2500


SEP 16 2005

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Report on Controls Over Funds Used by DoD for the National Drug Control Program (Project No. D2005-D000FJ-0120)

I have reviewed the Inspector General's audit report, and concur with the findings. After awareness of the material management control weakness, I have issued obligation guidance to all the Services and Defense Agencies that receive Counternarcotics funding (see attached). This guidance directs the DoD components to establish an account record that will support an audit of the amounts reported as obligated at the end of the fiscal year and a reconciliation of the amount reported at the end of the fiscal year with detailed transaction records. As the end of the fiscal year approaches, my office constantly reminds these components to properly record their obligations and to have documentation that supports each obligation.

If you have any questions, please contact Ms. Silvia Serban within my Programs, Resources and Assessments Directorate at (703) 697-5348.


Robert J. Newberry
Principal Director for
Counternarcotics

Attachment:
As stated



OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-2500

AUG 25 2005

SPECIAL OPERATIONS/
LOW-INTENSITY CONFLICT

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Department of Defense Counternarcotics Obligation Guidance

The Department of Defense Inspector General (DoDIG) has recently completed their annual audit of the execution of Fiscal Year (FY) 2004 counternarcotics funding. While they are reporting that the counternarcotics funding received by DoD components is being used for counternarcotics purposes, they identified a material management control weakness related to reconciling and supporting counternarcotics funds that were reported to our office as actual FY 2004 obligations. This weakness arose because some DoD components did not reconcile differences in the supporting detail they provided the IG and the amount reported to our office.

As we get closer to FY 2005 closeout, it is imperative that obligation records include documentation that supports the obligation. All DoD components that receive counternarcotics funding must establish an account record that will support an audit of the amounts reported as obligated at the end of the fiscal year and a reconciliation of the amount reported at the end of the fiscal year with detailed transaction records. The DoDIG will soon begin their audit of FY 2005 funding and will be especially reviewing those agencies that showed audit trail weaknesses.

If you have any questions or concerns regarding this matter, please contact Ms. Silvia Serban within my Programs, Resources and Assessments Directorate at (703) 697-5348.

Robert J. Newberry
Principal Director for Counternarcotics

CF:
USD(C)
DoDIG

Department of the Army Comments



REPLY TO
ATTENTION OF:

DEPARTMENT OF THE ARMY
Office of the Deputy Chief of Staff, G-3/5/7
400 Army Pentagon
Washington, D.C. 20310-0400

SEP 30 2005

DAMO-ODF-CD

SUBJECT: Army Response to DoDIG Draft Report: Controls Over Funds Used by
DoD for the National Drug Control Program

1. Army concurs with comment to subject draft report.

REFERENCE: Executive Summary of Draft DoDIG Report dated 30 August 2005 **Results.** "The Deputy Assistant Secretary of Defense (Counternarcotics) needs to require DoD counterdrug organizations to establish processes to properly record amounts used for counterdrug activities, to include maintaining information on the detail of the transactions related to amounts reported."

COMMENT: Within the framework of the numerous financial systems maintained by Department of the Army, processes and records exist to support counterdrug (CD) obligations. These processes and required records that form the detailed data are primarily property of the installation where the obligation is recorded, and not at the headquarters element responsible to coordinate, compile and report counterdrug obligations. Therefore, if pursuant to an audit, transaction lists are required to match obligations, this match up must occur at the installation responsible for entering the obligation into a financial system. Obligation reports submitted by HQDA and the various OAs regarding CD funding are not supported by detailed transaction lists.


RATIONALE: Obligation reporting associated with Counterdrug funding provided to the Department of the Army by OSD is performed by the Pentagon-based Army Counterdrug Office. Once funding is placed in an Army appropriation, the Army Counterdrug Office coordinates distribution to designated OAs. In many cases, these OAs further suballocate CD funding to the installation level for obligation. Compiling obligation data for a report to DASD-CN is a two prong process. First, a data call is sent to OAs that received CD monies by Army CD. Second, the Army CD office requests a data query through United States Army Finance Command (USAFINCOM) from the Standard Finance System (STANFIN) maintained by DFAS-Indianapolis. In each case, the queries are extracts from a STANFINs database using elements of the fiscal code (that identify funding as CD). Normally, the codes used to identify CD obligations are the MDEP and the FCA. Nowhere in this process are detailed transaction lists available that substantiate a reported obligation. The data is a roll up of all the individual transactions entered into the system at the installation level. Transaction lists are available for audit, but they reside at the installation where the obligation entry is made and not necessarily at The Army Counterdrug Office nor the OA. Compiling and Maintaining transaction listings or records that substantiate reported obligations by headquarters elements is not practicle. The various headquarters elements are not staffed to accomplish extensive record keeping and there are no accountants assigned to support CD funding.

DAMO-ODF-CD

SUBJECT: Army Response to DoDIG Draft Report: Controls Over Funds Used by
DoD for the National Drug Control Program

Conversely, some headquarters elements possess unique financial systems that enable them to provide transaction lists, but this is not universal across the Army commands that receive CD funding. Now and in the future, the Army CD Office will make every effort to provide auditors and their agencies with information to assist them with reviews/audits they are tasked to perform.

2. My POC for Army Counterdrug issues is Mr. Sam Fuson, (703) 697-6783.

 LTC
RICHARD S. VANDERLINDEN
LTC (P), GS
Chief, Force Protection
Division

National Guard Bureau Comments



DEPARTMENTS OF THE ARMY AND THE AIR FORCE
NATIONAL GUARD BUREAU
1411 JEFFERSON DAVIS HIGHWAY
ARLINGTON VA 22202-3231

NGB-ZC-IR


30 September 2005

MEMORANDUM FOR DOD Inspector General, Attention: Kevin Currier, 630
Morrison Road, Suite 310, Gahanna, Ohio 43230

Subject: Response for Draft Report Project No D-2005 D000FJ-0120, Controls
Over Funds Used by DOD for the National Drug Control Program

1. The National Guard Bureau is responding to and forwarding its Command Response to the DODIG's, Draft report recommendations, for Project No D-2005 D000FJ-0120, "Controls Over Funds Used by DOD for the National Drug Control Program".
2. The point of contact for this information is Mrs. Patricia Gallop, 703-607-0180.

Encl
as


DERRICK E MILLER
Chief, Internal Review
National Guard Bureau



DEPARTMENT OF THE ARMY AND THE AIR FORCE
NATIONAL GUARD BUREAU
1411 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22202-3231

NGB-J3-CD


13 September 2005

MEMORANDUM FOR INTERNAL REVIEW (NGB-IR) ATTN: Mrs Pat Gallop

SUBJECT: DODIG Draft Controls Over Funds Used by DOD for the National Drug Control Program (Project No. D2005-D000FJ-0120)

1. Reference, DODIG Draft Controls Over Funds Used by DOD for the National Drug Control Program (Project No. D2005-D000FJ-0120)
2. The National Guard Bureau, Domestic Operations (NGB-J3) has reviewed subject report and DODIG recommendations. Enclosed are the Command Response comments on this report.
3. The POC for this action is LTC P. W. Sarver, NGB-J3-CDR, 703-607-5640.

Encl


EARL S. BELL
Colonel, USAF
Chief, NGB-J3-Counterdrug Division



DEPARTMENT OF THE ARMY AND THE AIR FORCE
NATIONAL GUARD BUREAU
1411 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22202-3231

NGB-J3-CD

13 September 2005

NATIONAL GUARD BUREAU
COMMAND REPLY

DOD-IG Draft Report
Controls over Funds Used by DoD for the National Drug Control Program
No. D2005-D000FJ-01 20

1. The National Guard Bureau has reviewed the draft report, Report on Controls over Funds Used by Department of Defense (DoD) for the National Drug Control Program, regarding the procedures and process controls to reconcile and maintain an audit trail for Counterdrug military transactions.

2. DOD-IG Recommendations and Command Reply: Detailed Transaction Support

Recommendation: Require the DoD Counterdrug (CD) organizations reporting obligation data to establish procedures to maintain an audit trail for the amounts reported as obligated at the end of the fiscal year, and establish a process to reconcile the amount reported at the end of the fiscal year with detailed transaction records.

Command Reply: NGB concurs. NGB will retain the supporting Army and Air National Guard documents with the Office Secretary of Defense (OSD) Quarterly Report to provide the detailed analysis and explanation for the reconciliation process for the detailed transactions. NGB will use the Army National Guard Data Warehouse and Air National Guard Commanders' Resource Integration System (CRIS) to provide detailed obligation transaction information.

Recommendation: Report the material weakness identified in the Finding of Project No. D2005-D000FJ-0120 in the Army National Guard annual statement of assurance until it is corrected.

Command Reply: NGB concurs. NGB will coordinate with NGB-ARC (Comptroller) to revise the FY05 annual statement of assurance to reflect current weakness and identify the corrective procedures.

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

Paul J. Granetto
Patricia A. Marsh
James L. Kornides
Amy J. Frontz
Kevin C. Currier
Brian L. Henry
Bethany L. Seiple
Lusk F. Penn
James Hartman
Catherine Bird